

## Message Text

PAGE 01 STATE 164954  
ORIGIN SP-02

INFO OCT-01 ISO-00 SSO-00 /003 R

DRAFTED BY S/P:GARTEN  
APPROVED BY S/P:GARTEN  
-----076419 282346Z /61  
O 282315Z JUN 78 ZFF4  
FM SECSTATE WASHDC  
TO AMEMBASSY LONDON NIACT IMMEDIATE

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STADIS/////////////////  
FOR UNDER SECRETARY COOPER FROM GARTEN

E.O. 11652:

TAGS: ECON

SUBJECT: YOUR TESTIMONY FOR JOINT ECONOMIC COMMITTEE

1. FOLLOWING IS A FIRST DRAFT OF YOUR JULY 12 TESTIMONY  
BEFORE THE JOINT ECONOMIC COMMITTEE. IT INCLUDES HELPFUL  
COMMENTS FROM STAN BLACK AND DAVE DUNFORD OF EB.  
MODIFICATIONS OF THE TEXT WILL BE NECESSARY AS THE SUMMIT  
PREPARATIONS MATURE. WE UNDERSTAND THAT THE COMMITTEE  
WOULD LIKE YOU TO HOLD YOUR PREPARED STATEMENT TO 15 MINUTES

2. BEGIN TEXT: IT'S A PLEASURE FOR ME TO APPEAR BEFORE  
THIS COMMITTEE TODAY TO DISCUSS OUR INTERNATIONAL ECONOMIC  
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POLICIES.

3. THIS IS A PARTICULARLY TIMELY OCCASION TO BE HOLDING  
THESE HEARINGS. LATER THIS WEEK PRESIDENT CARTER WILL BE  
IN EUROPE ATTENDING A SUMMIT MEETING WITH THE HEADS OF  
STATE OF OUR MAJOR ALLIES AND TRADING PARTNERS. I WOULD,  
THEREFORE, LIKE TO FOCUS MY PREPARED REMARKS ON THE

POLICIES THE PRESIDENT WILL BE ADVOCATING AND THE OBJECTIVES HE HOPES TO ACHIEVE. I SHALL DISCUSS THE CURRENT INTERNATIONAL ECONOMIC SETTING, OUR DOMESTIC ECONOMIC POLICY OBJECTIVES, AND OUR CONSEQUENT APPROACH TO THE SUMMIT. I WILL CONCLUDE WITH SOME THOUGHTS ABOUT THE RELATION OF OUR CURRENT EFFORTS TO OUR LONGER TERM INTERESTS.

4. CURRENT SETTING: AS YOU KNOW, THE WORLD ECONOMY HAS STILL NOT FULLY RECOVERED FROM THE DEEP RECESSION OF THE PAST FEW YEARS. THIS WEEK'S SUMMIT MEETING OCCURS AGAINST A BACKDROP OF SLOW GROWTH IN THE OECD AREA,  
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HIGH LEVELS OF UNEMPLOYMENT AND INFLATION, LARGE AND PERSISTENT PAYMENTS IMBALANCES, WIDESPREAD AND GROWING PRESSURES TO RESTRICT TRADE, LOW LEVELS OF PRIVATE INVESTMENT, PERIODS OF EXCHANGE RATE INSTABILITY, AND A NUMBER OF CASES DELAYED IMPLEMENTATION OF ENERGY POLICIES. THE SITUATION OF COURSE VARIES SIGNIFICANTLY FROM COUNTRY TO COUNTRY. IN ADDITION SLOW GROWTH IN THE INDUSTRIALIZED NATIONS IS LIMITING THE DEVELOPMENT PROSPECTS FOR MANY THIRD WORLD NATIONS WITH WHOM OUR OWN WELFARE IS INCREASINGLY CONNECTED.

5. THERE IS EVIDENCE, HOWEVER, THAT PROGRESS CAN BE MADE OVER THE NEXT YEAR. NATIONAL GROWTH RATES ARE CONVERGING IN THE OECD AREA, WITH FAVORABLE IMPLICATIONS FOR BALANCE OF PAYMENTS PATTERNS. THERE HAVE

BEEN SIGNIFICANT IMPROVEMENTS IN EXTERNAL FINANCIAL  
SITUATIONS OF A FEW COUNTRIES WHO ONLY RECENTLY WERE  
IN PERILOUS POSITIONS. IN SEVERAL COUNTRIES INFLATION  
RATES ARE CONTINUING THEIR SLOW DECLINE. REAL INVEST-  
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MENT IS PICKING UP. AND WE ARE MAKING HEADWAY IN  
FURTHER LIBERALIZING TRADE.

6. TO MAINTAIN THIS MOMENTUM, HOWEVER, THE NATIONS OF  
THE OECD MUST ACHIEVE FASTER GROWTH, GREATER PRICE  
STABILITY, A BETTER DISTRIBUTION OF PAYMENTS DEFICITS  
AND MORE EFFECTIVE ENERGY POLICIES. THE MESSAGE I WISH  
TO UNDERLINE IS THAT THE MERE CONTINUATION OF CURRENT  
ECONOMIC POLICIES WILL NOT BE SUFFICIENT TO PUT THE  
WORLD ECONOMY BACK ON TRACKSO AS TO REDUCE AGGREGATE  
UNEMPLOYMENT AND TO FACILITATE NECESSARY ADJUSTMENT TO  
HIGH ENERGY PRICES AND CHANGING TRADE PATTERNS.

7. US DOMESTIC ECONOMIC OBJECTIVES: PRESIDENT CARTER  
HAS CLEARLY ARTICULATED OUR MAJOR DOMESTIC ECONOMIC  
OBJECTIVES.

-- WE MUST REDUCE OUR INFLATION, OR RUN THE RISK OF  
CONTINUED UNCERTAINTY IN OUR INVESTMENT CLIMATE, EROSION  
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OF THE ECONOMIC SECURITY OF OUR CITIZENS, REDUCED  
GROWTH, AND INSTABILITY IN THE INTERNATIONAL MONETARY  
SYSTEM. FAILURE ON THIS SCORE COULD THROW THE US  
ECONOMY BACK INTO RECESSION.

-- WE HAVE MADE GOOD PROGRESS IN REDUCING THE NUMBER OF AMERICANS WITHOUT JOBS. BUT WE MUST DO BETTER IN THE MONTHS AHEAD, PARTICULARLY WITH PROGRAMS TARGETTED ON THOSE SPECIFIC GROUPS, SUCH AS YOUNG PEOPLE AND MINORITIES, WHICH HAVE EXPERIENCED PROBLEMS ENTERING THE LABOR MARKET.

-- WE URGENTLY NEED ENERGY LEGISLATION TO REDUCE OUR OIL IMPORTS AND TO ENCOURAGE CONSERVATION AND THE DEVELOPMENT OF ALTERNATIVE ENERGY SOURCES. THE FAILURE TO MOUNT AN ENERGY PROGRAM HAS REDUCED CONFIDENCE ABROAD IN OUR ABILITY TO MANAGE OUR DOMESTIC POLICY EFFECTIVELY AND TO FULFILL OUR INTERNATIONAL RESPONSIBILITIES. IT HAS ALSO CONTRIBUTED TO RECENT MONETARY DISTURBANCES.

-- WE MUST ACT NOW TO REDUCE OUR TRADE DEFICIT EVEN UNCLASSIFIED

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THOUGH OUR POLICIES MIGHT TAKE MONTHS OR YEARS TO BEAR FRUIT. ENERGY LEGISLATION WILL HELP TO RESTRAIN OUR OIL IMPORTS, WHICH IS A SIGNIFICANT PART OF THE DEFICIT. IN ADDITION WE MUST GIVE ATTENTION TO STRENGTHENING THE PERFORMANCE OF OUR EXPORT SECTOR.

-- AND WE MUST MAINTAIN OPEN MARKETS TO FAIR COMPETITION FROM ABROAD. TRADE IS ESSENTIAL IF WE ARE TO ACHIEVE HIGH PRODUCTIVITY AND GROWTH WHILE AT THE SAME TIME COMBATTING INFLATION.

8. OUR APPROACH TO THE SUMMIT: I WANTED TO BRIEFLY OUTLINE THESE DOMESTIC OBJECTIVES IN ORDER TO SHOW THAT

OUR INTERNATIONAL ECONOMIC POLICIES ARE DESIGNED TO  
REINFORCE THEM. THE SIMPLE FACT IS THAT TODAY IT IS  
NOT POSSIBLE FOR ANY NATION TO ACHIEVE ALL ITS DOMESTIC  
OBJECTIVES IN THE ABSENCE OF GENERALLY COMPATIBLE  
POLICIES BY OTHER COUNTRIES.

9. LET ME DESCRIBE THE APPROACH THE PRESIDENT PLANS  
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TO TAKE AT THE SUMMIT.

10. THE PRESIDENT WILL BE ENGAGED IN DESIGNING A  
CRUCIAL AGREEMENT TO OBTAIN THE COOPERATION OF OTHER  
SUMMIT PARTICIPANTS TO ENSURE GLOBAL ECONOMIC RECOVERY.  
HE WILL BE MAKING THE CASE THAT BY ACTING TOGETHER RATHER  
THAN IN ISOLATION, COUNTRIES CAN REDUCE THE SCOPE OF  
THEIR INDIVIDUAL ACTIONS, ALL OF WHICH ARE CONSTRAINED  
BY PAINFUL POLITICAL AND ECONOMIC CHOICES. THE SPECIFIC  
ISSUES WILL FALL INTO SEVERAL RELATED CATEGORIES.

11. FIRST, THE PRESIDENT WILL UNDERSCORE THE NEED FOR  
SOUND MACROECONOMIC POLICIES. HIS FOCUS WILL BE ON THE  
FOLLOWING:

-- THE NEED FOR ACTIONS BY COUNTRIES WHICH ARE GROWING  
SLOWLY AND HAVE LARGE BALANCE OF PAYMENTS SURPLUSES TO  
GROW FASTER. IN TERMS OF OUR OWN INTERESTS, THIS WOULD  
HELP US EXPAND OUR EXPORTS AND ADD STABILITY TO EXCHANGE  
RATES.

-- THE NEED FOR CERTAIN NATIONS TO TAKE MORE EFFECTIVE  
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MEASURES TO REDUCE INFLATION. AMONG THE SUMMIT PARTICIPANTS, THE US INFLATION SITUATION IS THE MOST SERIOUS WE CAN EXPECT TO COME UNDER SOME PRESSURE TO DEMONSTRATE THAT WE CAN MANAGE THE PROBLEM. THIS, OF COURSE, IS AMONG OUR HIGHEST DOMESTIC PRIORITIES.

-- THE NEED FOR COUNTRIES TO AVOID TAKING DEFENSIVE MEASURES THAT PROP UP UNVIABLE INDUSTRIES AND MAINTAIN EMPLOYMENT IN INEFFICIENT BUSINESSES. WE SHOULD SEEK TO CREATE AN ECONOMIC ENVIRONMENT WHICH ENCOURAGES GOVERNMENTS TO GIVE GREATER FREEDOM TO MARKET FORCES IN BRINGING ABOUT ADJUSTMENT TO NEW ECONOMIC CIRCUMSTANCES. AT STAKE FOR US IS THE AVOIDANCE OF NEW RIGIDITIES AND INEFFICIENCIES IN OUR OWN ECONOMY AS WELL AS THE MAINTENANCE OF AN INTERNATIONAL ECONOMY CHARACTERIZED MORE BY COMPETITION THAN GOVERNMENT CONTROL.

12. SECOND, THE PRESIDENT WILL AIM TO GAIN APPROVAL FOR UNCLASSIFIED

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THE ESSENTIAL ELEMENTS OF A PACKAGE OF AGREEMENTS NOW EMERGING FROM THE MULTILATERAL TRADE NEGOTIATIONS IN GENEVA. WE WOULD LIKE TO SEE ALL THE NEGOTIATIONS COMPLETED BY THE END OF THIS YEAR. MAJOR US INTERESTS ARE CLEARLY AT STAKE HERE: EXPANDED MARKETS, JOBS, AND THE MANY OTHER BENEFITS WHICH DERIVE FROM AN OPEN INTERNATIONAL ECONOMY. US NEGOTIATORS, UNDER THE LEADERSHIP OF BOB STRAUSS, HAVE LED THE WAY IN THE REDUCTION OF TARIFF BARRIERS, THE REDUCTION AND

REGULATION OF NONTARIFF BARRIERS, AND THE STRENGTHENING  
OF THE RULES GOVERNING INTERNATIONAL TRADE. PROGRESS  
ON TWO ISSUES IS OF PARTICULAR IMPORTANCE TO US:  
ESTABLISHMENT OF A MORE OPEN AND STABLE SYSTEM FOR TRADE  
IN AGRICULTURE AND MORE INTERNATIONAL DISCIPLINE OVER  
THE USE OF SUBSIDIES. WE EXPECT TO BE PRESENTING THE  
TRADE AGREEMENTS TO CONGRESS EARLY NEXT YEAR.

13. THIRD, THERE WILL BE EXTENSIVE DISCUSSION OF NATIONAL  
ENERGY POLICIES AND POSSIBILITIES FOR INTERNATIONAL  
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ENERGY COOPERATION. I UNDERScore THE WEAK POSITION  
THE PRESIDENT WILL BE IN. WE ALONE AMONG THE OTHER  
SUMMIT PARTICIPANTS HAVE FAILED TO SET IN MOTION  
POLICIES TO ALLOW OUR ENERGY PRICES TO RISE TO WORLD  
LEVELS. IN ADDITION TO FOCUSING ON OUR DOMESTIC  
SITUATION, THE ENERGY DISCUSSION WILL CENTER ON WAYS  
TO INCREASE INVESTMENT IN THE ENERGY SECTOR, TO IMPROVE  
NATIONAL CONSERVATION EFFORTS, AND TO EXPAND ENERGY  
COOPERATION WITH THE NON-OPEC DEVELOPING NATIONS

14. FOURTH, THE PRESIDENT WILL BE ENGAGED IN DIS-  
CUSSIONS ON ECONOMIC RELATIONS WITH THE DEVELOPING  
COUNTRIES. IT HAS BECOME INCREASINGLY CLEAR THAT ECONOMIC  
GROWTH IN THE THIRD WORLD IS AN IMPORTANT ELEMENT IN  
THE GLOBAL ECONOMIC RECOVERY. OUR OWN TRADE AND INVEST-  
MENT TIES WITH THESE NATIONS ARE STRONG AND GROWING.  
THE SUMMIT PARTICIPANTS WILL EXCHANGE VIEWS ON THE NEED

TO EXPAND AND MAKE MORE EFFECTIVE OUR RESPECTIVE  
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FOREIGN ASSISTANCE PROGRAMS; TO SUPPORT THE CONTINUATION  
OF PRIVATE CAPITAL FLOWS TO THE THIRD WORLD; TO KEEP  
OPEN OUR MARKETS TO THE THIRD WORLD; AND TO FIND WAYS  
TO ENCOURAGE DEVELOPING COUNTRIES TO ACCEPT OBLIGATIONS  
IN THE INTERNATIONAL ECONOMY, SUCH AS THE NEED FOR MANY  
OF THEM TO REDUCE OVER TIME THEIR TRADE BARRIERS. WE  
WILL BE GIVING SPECIAL ATTENTION TO THE MORE INDUS-  
TRIALIZED LDCS WITH WHOM WE INCREASINGLY SHARE COMMON  
ECONOMIC CONCERNS.

15. ONCE AGAIN, HOWEVER, THE PRESIDENT'S ABILITY TO  
EXERCISE LEADERSHIP IN THIS AREA IS WEAKENED BY OUR OWN  
POLICIES. AS YOU KNOW, OUR OWN FOREIGN ASSISTANCE PRO-  
GRAMS ARE SMALL RELATIVE TO OUR INCOME, AND WE HAVE  
LARGE ARREARAGES TO THE MULTILATERAL DEVELOPMENT BANKS  
WHICH CAN BE INTERPRETED AS DEFAULTS ON OUR INTERNATIONAL  
OBLIGATIONS. IN ADDITION, DESPITE OUR PLEDGE TO INCREASE  
OUR FOREIGN ASSISTANCE LEVELS AND MAKE OUR AID MORE  
EFFECTIVE, OUR FOREIGN AID REQUEST FOR FY 79 IS  
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SERIOUSLY THREATENED IN CONGRESS BY DEEP CUTS IN  
APPROPRIATIONS AND PROPOSED LEGISLATED RESTRICTIONS.

16. FINALLY, WE HAVE AS YET NOT RATIFIED THE WITTEVEEN  
FACILITY IN THE IMF WHICH WILL ALLOW A MUCH NEEDED  
EXPANSION OF ITS RESOURCES. WHILE ALL COUNTRIES WILL BE



ELIGIBLE TO USE THIS FACILITY, LDCS WOULD BE MAJOR  
BENEFICIARIES.

17. DESPITE THE ECONOMIC SITUATION BOTH WE AND THE LDCS  
HAVE FACED, AND THE DIFFICULTIES WE HAVE HAD DELIVERING  
ON SPECIFIC COMMITMENTS, I BELIEVE THIS ADMINISTRATION  
HAS MADE SIGNIFICANT PROGRESS IN OUR RELATIONSHIP WITH  
THE THIRD WORLD. THE PRESIDENT INTENDS TO KEEP UP  
THIS MOMENTUM.

18. THE LONGER TERM: IN OUR CURRENT POLICIES I BE-  
LIEVE YOU CAN SEE THE OUTLINE OF A STRENGTHENED INTER-  
NATIONAL ECONOMY FOR THE FUTURE.

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-- SOUND MACROECONOMIC MANAGEMENT WILL LAY THE BASE  
FOR A SUSTAINED GROWTH, WHICH IS A PRECONDITION FOR  
A PROSPEROUS INTERNATIONAL ECONOMY, AND A STABLE  
MONETARY SYSTEM.

-- IN THE TRADE NEGOTIATIONS WE ARE REACHING A CON-  
SENSUS WITH OTHER NATIONS ON THE RULES AND PROCEDURES  
TO GOVERN INTERNATIONAL COMMERCE FOR YEARS TO COME.

-- IN OUR EFFORTS TO FASHION AN EFFECTIVE NATIONAL  
ENERGY POLICY AND POOL OUR EFFORTS WITH OTHER COUNTRIES,  
WE ARE TRYING TO MANAGE WHAT WILL BE A DIFFICULT  
TRANSITION TO THE TIME WHEN OIL AND GAS WILL NOT BE  
OUR PRINCIPAL SOURCE OF ENERGY.

-- AND IN OUR POLICIES TOWARDS THE DEVELOPING COUNTRIES  
WE ARE GOING BEYOND THE STALE RHETORIC OF THE LAST

DECADE TO A SERIOUS SEARCH FOR WAYS TO COOPERATE IN  
AREAS WHERE BOTH WE AND THEY STAND MUCH TO GAIN.

19. CONCLUSION:

MR. CHAIRMAN, WE CANNOT ELIMINATE OUR ECONOMIC

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PROBLEMS QUICKLY; THEY ARE TOO DEEP-SEATED, AND OUR  
POLICY OPTIONS ARE CIRCUMSCRIBED BY A VARIETY OF  
POLITICAL, SOCIAL, AND TECHNICAL CONSTRAINTS. YET  
EVERY YEAR IN WHICH WE FAIL TO MAKE PROGRESS HAS MAJOR  
COSTS TO OUR SOCIETY; IN RIGIDITIES ADDED TO OUR  
ECONOMY, IN SUPPLY BOTTLENECKS BUILT UP, IN THE HIGHER  
COSTS OF ADJUSTMENT, AND MOST IMPORTANTLY, IN THE  
LOWERING OF MATERIAL WELL-BEING FOR OUR CITIZENS, AND  
THE PERMANENT SCARS ON MANY OF OUR YOUTH WHO CANNOT  
FIND WORK. WE ARE REDOUBLING OUR EFFORTS TO MAKE PROGRESS,  
AND IN THIS EFFORT BOTH THE ADMINISTRATION AND CONGRESS  
WILL HAVE TO WORK VERY CLOSELY TOGETHER. I APPRECIATE  
THE CHANCE TO MAKE THIS BRIEF STATEMENT OF OUR INTER-  
NATIONAL ECONOMIC POLICIES, AND I LOOK FORWARD TO YOUR  
QUESTIONS. VANCE

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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 26 sep 1999  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** COMMITTEES  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 28 jun 1978  
**Decaption Date:** 01 jan 1960  
**Decaption Note:**  
**Disposition Action:** n/a  
**Disposition Approved on Date:**  
**Disposition Case Number:** n/a  
**Disposition Comment:**  
**Disposition Date:** 01 jan 1960  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1978STATE164954  
**Document Source:** ADS  
**Document Unique ID:** 00  
**Drafter:** S/P:JGARTEN  
**Enclosure:** n/a  
**Executive Order:** 11652  
**Errors:** n/a  
**Expiration:**  
**Film Number:** D780268-0404  
**Format:** TEL  
**From:** STATE  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1978/newtext/t197806115/baaaezbz.tel  
**Line Count:** 532  
**Litigation Code IDs:**  
**Litigation Codes:**  
**Litigation History:**  
**Locator:** TEXT ON-LINE, TEXT ON MICROFILM  
**Message ID:** b9334f7e-c288-dd11-92da-001cc4696bcc  
**Office:** ORIGIN SP  
**Original Classification:** UNCLASSIFIED  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 10  
**Previous Channel Indicators:**  
**Previous Classification:** n/a  
**Previous Handling Restrictions:** n/a  
**Reference:** n/a  
**Retention:** 0  
**Review Action:** RELEASED, APPROVED  
**Review Content Flags:**  
**Review Date:** 29 mar 2005  
**Review Event:**  
**Review Exemptions:** n/a  
**Review Media Identifier:**  
**Review Release Date:** N/A  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**SAS ID:** 2178383  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** YOUR TESTIMONY FOR JOINT ECONOMIC COMMITTEE  
**TAGS:** ECON  
**To:** LONDON NIACT  
**Type:** TE  
**vdkgvwkey:** odb://SAS/SAS.dbo.SAS\_Docs/b9334f7e-c288-dd11-92da-001cc4696bcc  
**Review Markings:**  
Sheryl P. Walter  
Declassified/Released  
US Department of State  
EO Systematic Review  
20 Mar 2014  
**Markings:** Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014